

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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ADVANCED ANALYTICS, INC.,
:

Plaintiff,
:

-v-
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CITIGROUP GLOBAL MARKETS, INC. f/k/a
SALOMON SMITH BARNEY, INC., and THE YIELD
BOOK, INC., f/k/a SALOMON ANALYTICS, INC.,
:

Defendants.
:
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04 Civ. 3531 (LTS)

HIGHLY
CONFIDENTIAL

DECLARATION OF ROBERT A. RUSSELL

I, Robert A. Russell, hereby declare as follows:

The Yield Book

3. During my employment with CGMI, one responsibility of the Mortgage Research Department was to develop and maintain the model for valuing mortgage-backed securities ("MBS") that was incorporated in defendants' product known as the Yield Book. The Yield Book generates values for MBS in the following manner: (1) a number called a "seed" is

fed into a random number generator; (2) the random number generator produces a set of numbers that are referred to as pseudo-random numbers; (3) variance reduction techniques, such as **Redacted** are applied to the pseudo-random numbers to generate a sequence of numbers; (4) the resulting sequence is used to construct valuation scenarios that differ from one another depending upon interest rate changes over time and other variables (each scenario is referred to as a “path”); (5) the cash flows that the security can be expected to generate are estimated for each segment of each path by analyzing the interest rates of that segment; and (6) the estimated cash flows for each segment of a given path are discounted and aggregated to determine the total present value of that path, and the present values of all paths are averaged to arrive at an estimated value of the security.